

Message Text

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73

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 TRSE-00 EB-11 FTC-01 DRC-01

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R 052046Z NOV 73

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4166

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E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: NEW TAX LEGISLATION

1. ADMINISTRATION RECENTLY SUBMITTED TO CONGRESS NEW PACKAGE TAX LAWS WHICH WOULD SUBSTANTIALLY MODIFY CURRENT TAX STRUCTURE AND RATES. NO INDICATION YET OF LIKELIHOOD OF PASSAGE OF VARIOUS BILLS. NATIONAL TAX DIRECTOR SOUTHEIX, WHO EXPLAINING AND DEFENDING TAX PACKAGE BEFORE CONGRESS OVER LAST SEVERAL DAYS, TOLD EMBOFFS IN MEETING THAT MAJOR PURPOSE OF LEGISLATION TO REDISTRIBUTE TAX BURDEN IN FAVOR LOWER CLASSES, SIMPLIFY REGULATIONS AND ADMINISTRATION AND REDUCE EVASION. HE DID NOT EXPECT NEW LAWS WOULD RESULT IN LARGE INCREASE GOV'T REVENUES TO REDUCE SIZABLE FISCAL DEFICIT. FOLLOWING IS SUMMARY OF IMPORTANT POINTS CONTAINED IN PROPOSED LEGISLATION OBTAINED FROM SEVERAL SOURCES. EMBASSY WILL SUBMIT MORE DETAILED ANALYSIS FOLLOWING REVIEW OF TEXTS OF LAWS. VALUE ADDED TAX WOULD BECOME EFFECTIVE 1/1/75; OTHER TAXES PROPOSED FOR 1/1/74.

1) VALUE ADDED TAX TO REPLACE CURRENT SALES TAX. RATE WOULD BE 16 PERCENT OR 23 PERCENT DEPENDING ON COMMODITY. METHOD OF ADMINISTRATION NOT YET KNOWN.

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2) CURRENT CAPITAL GAINS TAX ELIMINATED. FUTURE CAPITAL GAINS

TAXED AT SAME RATE AS INCOME FROM OTHER SOURCES.

3) PERSONAL INCOME TAX EXEMPTIONS AND DEDUCTIONS GENERALLY RAISED SO THAT APPROXIMATELY FIRST 60,000 PESO ANNUAL INCOME TAX FREE. UNDER PROPOSED LEGISLATION, LARGE PERCENTAGE ARGENTINE SALARIED WORKERS WOULD PAY NO INCOME TAX. SCHEDULE ITSELF MADE SLIGHTLY MORE PROGRESSIVE. 7 PERCENT FIRST 5,000 PESOS TAXABLE INCOME, 48 PERCENT TAXABLE INCOME ABOVE 120,000 PESOS PA.

4) CORPORATE INCOME TAX RATE REDUCED FROM CURRENT 33 PERCENT TO 22 PERCENT. HOWEVER, RETENTION RATE ON DIVIDENDS PAID ABROAD (OR DISBURSED LOCALLY) RAISED FROM 12 PERCENT TO 32 PERCENT. EFFECTIVE CORPORATE TAX RATE BECOMES 47 PERCENT, OR 61 PERCENT WITH 30 PERCENT SURCHARGE WHICH SCHEDULED TO REMAIN IN EFFECT 1974.

5) ROYALTIES, INTEREST, PAYMENT TECHNICAL SERVICES RETENTION RATE INCREASED FROM 42 PERCENT TO 47 PERCENT. PAYMENTS OF THIS NATURE NOT ALLOWED AS BUSINESS EXPENSE DEDUCTION WHERE "ECONOMIC LINK" EXISTS BETWEEN LOCAL ENTITY AND FOREIGN INSTITUTION.

6) STOCK MARKET INCENTIVE REGULATION, UNDER WHICH TAXPAYER ALLOWED TO INVEST UP TO 10 PERCENT OF TAXES DUE GOVERNMENT IN STOCK MARKET, EXTENDED, ALTHOUGH AT SLIGHTLY REDUCED LEVEL.

7) STOCK TRANSACTIONS SUBJECT TO NEW REGISTRATION PROCEDURES DESIGNED TO CLEARLY IDENTIFY HOLDER OF STOCK AND RECIPIENT OF DIVIDENDS. NEW REGULATION WOULD ELIMINATE ANONYMITY OF STOCK-HOLDER IN ARGENTINA WHICH NOTORIOUS SOURCE TAX EVASION.

8) PROMISSORY NOTE ISSUANCE IN FUTURE WILL BE CONTROLLED AND REGULATED BY PUBLIC ENTITY IN EFFORT REDUCE BLACK MARKET LENDING ACTIVITIES AND TAX EVASION ON HIGH RATES INTEREST RECEIVED.

9) CORPORATE NET WORTH TAX AND NET ESTATE TAX COMBINED INTO SINGLE NET WORTH TAX AT SLIGHTLY REDUCED RATE.

10) TECHNICAL EDUCATION TAX AND SPECIAL TAX ON AUTOMOBILES WOULD BE ELIMINATED.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 05 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BUENOS08033
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731155/aaaabolg.tel
Line Count: 98
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 15 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Jan-2002 by shawdg>; APPROVED <06-Feb-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW TAX LEGISLATION
TAGS: EFIN, AR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005